

Independent Auditors' Report

The Honorable Mayor
and Members of the City Council
City of Lincoln, Nebraska:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska, as of and for the year ended August 31, 2002, which collectively comprise the City of Lincoln, Nebraska's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lincoln, Nebraska's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and street construction fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in notes 1 and 3, the City of Lincoln, Nebraska has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus*, No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2003, on our consideration of the City of Lincoln, Nebraska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 5 through 14 and the schedules of funding progress and employer contributions included in note 13 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements listed in the foregoing table of contents and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

/s/ **KPMG LLP**

January 3, 2003